Best Inventory Management Techniques You Need to Know

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Inventory management includes aspects such as controlling and overseeing purchases, both from the suppliers and from the customers. This includes maintaining stock, controlling the amount of product for sale and order fulfilment.

Picture a successful retail business in your mind. You are probably picturing a local shop or a huge shopping mall.

Is there something that you find common between both of these?
Do they both always have products in stock?
Do they both carry goods in-store and online?
If yes, both the retailers have good handling over their *inventories*. Inventory management and its techniques are an important aspect to look at before you kickstart your business. Read this article to know more about the inventory management techniques and how to do it the best way.

What is inventory management

First things first, as a part of the supply chain, inventory management includes aspects such as controlling and overseeing purchases, both from the suppliers and from the customers. This includes maintaining stock, controlling the amount of product for sale and order fulfilment. The goal of inventory management is to:

- Minimize the cost of holding inventory by helping the business owners know when it’s time to replenish products or buy materials to manufacture them
- Know where the business inventory is at a given time and how much of it do you have in order to manage and balance the inventory the right way

Why do you need inventory management

Proper inventory management is the fundamental building block to your company’s longevity. When your inventory is properly organised, your entire supply-chain will be on the right track. Not having your inventory in place can lead to issues like mis-shipments, out of stocks, overstocks, etc.
Here are quick pointers as to why inventory management is so important:

1. **Avoid spoilage:** If your business sells perishable products or the products that come with an expiry date, like food or makeup accessories, it is highly possible that it will spoil if you do not sell it in time. Solid inventory management helps you avoid unnecessary spoilage.
2. **Avoid deadstock:** Deadstock does not only refer to expired material but also the stocks that can no longer be sold because it could have gone out of style or out of the season’s demand. By managing your inventory in a better way, you can avoid issues like these.
3. **Save on storage costs:** Oftentimes, warehousing brings in a variable cost. This means you have to pay on the basis of

the weight or size of your products. A thorough study of your inventory report over time will help you understand what products are sold best and when and hence, you will save on spending excess on the storage houses.

4. **Improper stocks:** Usually, out of stocks and overstocks occur when a company uses manual methods to place orders, without overseeing the state of their inventory. This certainly is not a good predictor for inventory forecasting and hence results in too much stock or too little stock.

All of these mistakes will not only cost you money but also cost you wasted labour to load and unload in the beginning and then rectifying the mistakes later. Simply put, when you don't implement proper inventory management techniques and tools, your risk of human error mistakes keeps going up. Not just monetarily, this also makes a direct impact on your customers' experience. Poor inventory management techniques can cost you negative customer reviews and your loyalty might take a negative hit as well.

Top inventory management techniques for your business

Inventory management is one of the most highly customizable parts of running a business. It varies from company to company.

However, each business must try to remove as much human error as possible. Regardless of whichever inventory management tool you are planning to use, listed below inventory management techniques will help you improve your inventory *(and cash flow too)*!

Set par levels

Make the process simpler by setting a 'par level' for each of your product. Par level refers to the minimum quantity of a particular product that must be on hand, all the time. Whenever

your inventory stocks dip below a predetermined value, you know it’s time to place an order.
Par product value may differ from product to product and also by how quickly is an item sold or how long does it take to get it sold.
Setting up a par value will take some time initially- you will have to conduct research for each product based on the season and other factors but after setting it up ones, it will simplify the entire process of ordering!
Remember to keep checking on your par values from time to time, to check if your assumption still makes sense or you need to tweak it a little.

First-in first-out (FIFO)

As the name suggests, this principle means that the first stock that comes in goes out first. This is especially important for perishable products so that you don’t end up with spoiled or expired products. It is also a good idea to practice FIFO for non-perishable products. The reason is, if boxes are kept in for long, they are likely to get worn-out. You certainly don’t want to end up with something obsolete that you can’t sell.
In order to have a proper FIFO in place, all you need is an organised warehouse. Typically, this means adding the product from the back and pushing the existing products to the front.

Build & manage relationships

Building a strong and reliable network plays an important role in a healthy inventory. This inventory management technique goes a long way whether you need to return a slow-selling item or restock a fast seller quickly or trouble manufacturing issues or temporarily expand storage space. It is important to have a strong relationship with your suppliers. That way, they will be more cooperative with you and help you find solutions quickly. Please note, a good relationship is not just about being friendly. It is about clear, proactive and open conversations.

Regular auditing

Even if you have a tool or software to manage your inventory, it is a good idea to make sure that the screen data matches the actual facts.
Find out ways to have a quick check on all of your products and if they are in sell-worthy condition.

Using the ABC method

Out of all your products, there are some products that need more attention than others. Using an ABC analysis lets you prioritize your inventory management by separating out the products that require a lot of attention from those that don't. You can do this by listing your products in one of the three categories:

- High-value products with a low frequency of sales (Category A)
- Moderate-value products with a moderate frequency of sales (Category B)
- Low-value product with a high frequency of sales (Category C)

Your Items in category A require regular attention since they have huge financial impact but the sales are unpredictable. The items you list in Category C require less attention since they have a smaller financial impact and they are constantly getting sold. The items you list in Category B fall somewhere in between.
Also Read All You Need To Know About Balance Sheets

Accurate forecasting

One of the most important inventory management techniques is to have precise and reliable forecasting in place. Even though your prediction might not be 100 percent accurate, you will be prepared for something that might happen. Make accurate predictions by looking at the following:

- Current market trends

- Last year’s sales during the current time
- Current year’s growth rate
- Seasonality of your products
- Overall economy

Best inventory management tools

Now that you know what is inventory management, why you need it and have a hold of best inventory management techniques, it’s time you know about the best tools to help you get started. Here are the top inventory management tools to assist your business growth:

- NetSuite ERP
- Zoho Inventory
- QuickBooks
- Systum
- SellerCloud

With the above mentioned powerful inventory management techniques in place, you can reduce additional costs while helping your business to stay profitable. You can also analyze sales patterns and predict future sales and get yourself and the business prepared for the unexpected.

It’s time you take control of your inventory management and stop losing money and for the same, we hope this article helps you throughout!